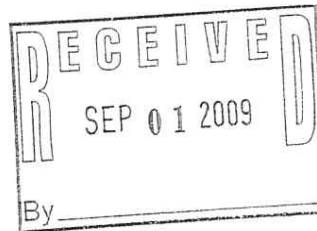


MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
PINE VALLEY, CALIFORNIA

AUDIT REPORT

JUNE 30, 2008

DATE RECEIVED:



AUDIT REVIEW #(s) 05182

Assigned To: healy

Date Reviewed: 9/2/09

Reviewer's Initials: SL

Date Review(s) Completed: 9/2/09

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Introductory Section

Mountain Empire Unified School District
Audit Report
For The Year Ended June 30, 2008

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Audit Report
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Financial Section

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Independent Auditor's Report on Financial Statements

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mountain Empire Unified School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mountain Empire Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mountain Empire Unified School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009, on our consideration of Mountain Empire Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Mountain Empire Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkinson Radley King & Co., LLP

El Cajon, California
January 30, 2009

Mountain Empire Unified School District
Management's Discussion and Analysis
June 30, 2008
(Unaudited)

This section of Mountain Empire Unified School District's (2007/2008) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Mountain Empire Unified School District (the District) and its components using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities, if any, separately. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain culminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include only statements for governmental activities. The District does not have business-type or fiduciary activities.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Primary unit of this government entity is the Mountain Empire Unified School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial

health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

Governmental activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the State Department of Education.

Governmental funds – All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each government fund financial statement.

Proprietary funds – The District does not have any Proprietary funds.

Fiduciary funds – The District has one Fiduciary fund.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$13,669,150 for the fiscal year ended June 30, 2008. Our analysis below focuses on the net assets for 2006-07 and 2007-08 (Table 1) and change in net assets (Table 2) of the District's *governmental activities*.

Table 1		
Statement of Net Assets		
June 30, 2008		
	<u>2007-08</u>	<u>2006-07</u>
Assets		
Cash	\$ 8,556,870	\$ 7,552,688
Investments	-0-	-0-
Receivables	1,277,396	888,810
Due from (to) other funds	-0-	-0-
Stores	76,628	49,501
Prepaid expenses	-0-	-0-
Other current assets	-0-	-0-
Capital assets:		
Land	660,078	645,570
Land Improvements	302,300	302,300
Buildings	9,185,801	9,105,801
Equipment	2,837,482	2,851,932
Work in Progress	-0-	-0-
Less depreciation	<u>(5,416,691)</u>	<u>(5,190,380)</u>
Total assets	<u>17,749,864</u>	<u>16,206,222</u>
Liabilities		
Accounts payable	\$ 559,165	\$ 455,384
Current loans	-0-	-0-
Deferred revenue	258,792	139,670
Long-term liabilities:		
Due within one year	199,938	221,956
Due in more than one year	<u>2,792,819</u>	<u>2,907,023</u>
Total liabilities	<u>3,810,714</u>	<u>3,724,033</u>
Net Assets		
Invested in capital assets, net	\$ 4,725,960	\$ 9,979,922
Restricted	2,428,523	2,502,267
Unrestricted	6,515,667	-0-
Total net assets	<u>13,669,150</u>	<u>12,482,189</u>

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities in Table 2. It takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2
Mountain Empire Unified's Activities

	<u>Governmental Activities</u>
Revenues	
<u>Program Revenues</u>	
Charges for Services	\$ 378,033
Operating Grants	\$ 6,498,359
Capital Grants	\$ 3,739
<u>General Revenues</u>	
Fed. & State Revenues	\$ 5,010,809
Property Taxes	\$ 5,497,425
Other General Revenues	\$ 504,295
Total Revenues	\$17,892,660
Expenses	
Instruction & Instruction Related	\$11,102,323
Pupil Services	\$ 2,433,249
Administration	\$ 1,066,940
Maint. & Operations	\$ 1,934,838
Other	\$ 248,370
Total Expenses	\$16,785,720
Change in Net Assets	<u>\$ 1,106,940</u>
Net assets beginning	\$12,562,210
Net assets ending	\$13,669,150

While the Change in Net Assets is an increase of \$ 1,106,940, this is primarily due to an inflow of Mandated Cost Claim reimbursements that were owed to the District.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$16,785,720. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$5,497,425. Other sources of revenue were from some costs being paid by those who benefited from the programs or by other organizations that subsidized certain programs with grants and contributions.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had a value of \$7,568,970 in a broad range of capital assets, including land, buildings and furniture, and equipment.

Land	\$ 660,078
Buildings & Improvements	\$9,488,101
Equipment	\$2,837,482
Accumulated Depreciation	\$(5,416,691)

Long-Term Debt

At the end of this year, the District had \$2,805,000 in bonds outstanding. Other obligations include compensated absences payable, post employment benefits and lease/purchase obligations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Manager at Mountain Empire Unified School District, 3291 Buckman Springs Road, Pine Valley CA 91962, or e-mail at qluquin@meusd.net.

Basic Financial Statements

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 8,540,947
Cash on Hand and in Banks	3,423
Cash in Revolving Fund	7,500
Cash with a Fiscal Agent/Trustee	5,000
Accounts Receivable	1,277,396
Stores Inventories	76,628
Capital Assets	
Land	660,078
Improvements	302,300
Buildings	9,185,801
Equipment	2,837,482
Less Accumulated Depreciation	(5,416,691)
Total Assets	<u>17,479,864</u>
LIABILITIES:	
Accounts Payable	559,165
Deferred Revenue	258,792
Long-term Liabilities	
Due Within One Year	199,938
Due In More Than One Year	2,792,819
Total Liabilities	<u>3,810,714</u>
NET ASSETS:	
Invested In Capital Assets, Net of Related Debt	4,725,960
Restricted For:	
Capital Projects	439,709
Debt Service	41,482
Educational Programs	1,917,293
Other Purposes (expendable)	29,039
Unrestricted	6,515,667
Total Net Assets	<u>\$ 13,669,150</u>

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Government Activities:					
Instruction	\$ 9,361,446	\$ 243,659	\$ 4,077,445	\$ 3,739	\$ (5,036,603)
Instruction-Related Services	1,740,877	120	430,203	-	(1,310,554)
Pupil Services	2,433,249	119,524	1,713,809	-	(599,916)
Ancillary Services	208,994	1,131	1,688	-	(206,175)
General Administration	1,066,940	12,441	128,571	-	(925,928)
Plant Services	1,934,838	1,158	144,588	-	(1,789,092)
Interest on Long-Term Debt	39,376	-	-	-	(39,376)
Other Outgo	-	-	2,055	-	2,055
Total Governmental Activities	<u>16,785,720</u>	<u>378,033</u>	<u>6,498,359</u>	<u>3,739</u>	<u>(9,905,589)</u>
Total Primary Government	<u>\$ 16,785,720</u>	<u>\$ 378,033</u>	<u>\$ 6,498,359</u>	<u>\$ 3,739</u>	<u>(9,905,589)</u>
General Revenues:					
Taxes and subventions					5,497,425
Federal and state aid not restricted to specific purposes					5,010,809
Interest and investment earnings					363,545
Miscellaneous					140,750
Total General Revenues					<u>11,012,529</u>
Change in Net Assets					<u>1,106,940</u>
Net Assets - Beginning					12,482,190
Adjustment to Beginning Fund Balance (Note M)					80,020
Net Assets - Ending					<u>\$ 13,669,150</u>

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	Child Development Fund
ASSETS:		
Cash in County Treasury	\$ 3,453,811	\$ 72,299
Cash on Hand and in Banks	-	-
Cash in Revolving Fund	7,500	-
Cash with a Fiscal Agent/Trustee	-	-
Accounts Receivable	1,087,606	60,458
Due from Other Funds	8,560	12,671
Stores Inventories	61,688	-
Total Assets	<u>\$ 4,619,165</u>	<u>\$ 145,428</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 499,830	\$ 1,776
Due to Other Funds	12,722	8,560
Deferred Revenue	129,062	129,730
Total Liabilities	<u>641,614</u>	<u>140,066</u>
Fund Balance:		
Reserved Fund Balances:		
Reserve for Revolving Cash	7,500	-
Reserve for Stores Inventories	61,688	-
Unreserved	3,908,363	5,362
Unreserved, reported in nonmajor:		
Special Revenue Funds	-	-
Debt Service Funds	-	-
Capital Projects Funds	-	-
Total Fund Balance	<u>3,977,551</u>	<u>5,362</u>
Total Liabilities and Fund Balances	<u>\$ 4,619,165</u>	<u>\$ 145,428</u>

The accompanying notes are an integral part of this statement.

Building Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,246,739	\$ 2,422,239	\$ 1,345,859	\$ 8,540,947
-	-	3,423	3,423
-	-	-	7,500
-	-	5,000	5,000
10,719	20,855	97,758	1,277,396
-	-	51	21,282
-	-	14,941	76,629
<u>\$ 1,257,458</u>	<u>\$ 2,443,094</u>	<u>\$ 1,467,032</u>	<u>\$ 9,932,177</u>
\$ -	\$ -	\$ 15,716	\$ 517,322
-	-	-	21,282
-	-	-	258,792
<u>-</u>	<u>-</u>	<u>15,716</u>	<u>797,396</u>
-	-	-	7,500
-	-	14,941	76,629
1,257,458	2,443,094	-	7,614,277
-	-	1,210,575	1,210,575
-	-	196,461	196,461
-	-	29,339	29,339
<u>1,257,458</u>	<u>2,443,094</u>	<u>1,451,316</u>	<u>9,134,781</u>
<u>\$ 1,257,458</u>	<u>\$ 2,443,094</u>	<u>\$ 1,467,032</u>	<u>\$ 9,932,177</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances - governmental funds balance sheet \$ 9,134,781

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost	12,985,661	
Accumulated depreciation	(5,416,691)	
	Net	7,568,970

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:

(41,844)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	2,805,000	
Other postemployment benefits	64,012	
Compensated absences payable	85,735	
Capital leases payable	38,010	
	Total	(2,992,757)

Net assets of governmental activities - statement of net assets \$ 13,669,150

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Child Development Fund
Revenues:		
Revenue Limit Sources:		
State Apportionments	\$ 3,957,583	\$ -
Local Sources	5,378,563	-
Federal Revenue	1,090,005	-
Other State Revenue	3,576,569	184,056
Other Local Revenue	2,401,531	61,283
Total Revenues	<u>16,404,251</u>	<u>245,339</u>
Expenditures:		
Instruction	9,262,168	156,134
Instruction - Related Services	1,649,930	60,145
Pupil Services	1,840,393	-
Ancillary Services	208,995	-
General Administration	1,050,897	8,560
Plant Services	1,711,898	15,138
Debt Service:		
Principal	-	12,671
Interest	-	-
Total Expenditures	<u>15,724,281</u>	<u>252,648</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>679,970</u>	<u>(7,309)</u>
Other Financing Sources (Uses):		
Transfers In	-	12,671
Transfers Out	(47,176)	-
Total Other Financing Sources (Uses)	<u>(47,176)</u>	<u>12,671</u>
Net Change in Fund Balance	632,794	5,362
Fund Balance, July 1	3,344,757	-
Fund Balance, June 30	<u>\$ 3,977,551</u>	<u>\$ 5,362</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-5

Building Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 3,957,583
-	-	-	5,378,563
-	-	402,125	1,492,130
-	-	134,779	3,895,404
53,622	279,753	372,793	3,168,982
<u>53,622</u>	<u>279,753</u>	<u>909,697</u>	<u>17,892,662</u>
-	-	11,396	9,429,698
-	-	10,919	1,720,994
-	-	563,450	2,403,843
-	-	-	208,995
-	13,600	-	1,073,057
-	-	10,000	1,737,036
-	-	70,000	82,671
-	-	128,428	128,428
<u>-</u>	<u>13,600</u>	<u>794,193</u>	<u>16,784,722</u>
53,622	266,153	115,504	1,107,940
-	-	34,505	47,176
-	-	-	(47,176)
<u>-</u>	<u>-</u>	<u>34,505</u>	<u>-</u>
53,622	266,153	150,009	1,107,940
1,203,836	2,176,941	1,301,307	8,026,841
<u>\$ 1,257,458</u>	<u>\$ 2,443,094</u>	<u>\$ 1,451,316</u>	<u>\$ 9,134,781</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ 1,107,940

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	177,355	
Depreciation expense:	(403,626)	
Net		(226,271)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

82,671

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

89,052

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

29,430

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

24,118

Change in net assets of governmental activities - statement of activities \$ 1,106,940

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Agency Fund
	<hr/>
	Student Body Fund
	<hr/>
ASSETS:	
Cash on Hand and in Banks	\$ 54,996
Total Assets	<hr/> \$ 54,996 <hr/>
LIABILITIES:	
Due to Student Groups	\$ 54,996
Total Liabilities	<hr/> 54,996 <hr/>
NET ASSETS:	
Total Net Assets	<hr/> \$ - <hr/>

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

A. Summary of Significant Accounting Policies

Mountain Empire Unified School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Child Development Fund. This fund is used to account separately for federal, state, and local revenues to operate child development programs.

Building Fund. This fund is used to account for proceeds from the sale of real property and account for the acquisition of major governmental facilities and buildings from the sale of bonds.

Capital Facilities Fund. This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

In addition, the District reports the following fund types:

Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds. These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	3-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Excess of Expenditures Over Appropriations

As of June 30, 2008, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Ancillary Services	\$ 7,567

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$8,540,947 as of June 30, 2008). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$8,540,947. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$58,419 as of June 30, 2008) and in the revolving fund (\$7,500) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments:

The District's investments at June 30, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Money Market	\$ 5,000
Total Investments	\$ 5,000

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's Investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

5. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 645,570	\$ 14,508	\$ -	\$ 660,078
Work in progress	-	-	-	-
Total capital assets not being depreciated	<u>645,570</u>	<u>14,508</u>	<u>-</u>	<u>660,078</u>
Capital assets being depreciated:				
Buildings	9,185,801	-	-	9,185,801
Improvements	302,300	-	-	302,300
Equipment	2,811,950	162,847	137,315	2,837,482
Total capital assets being depreciated	<u>12,300,051</u>	<u>162,847</u>	<u>137,315</u>	<u>12,325,583</u>
Less accumulated depreciation for:				
Buildings	(2,893,556)	(197,805)	-	(3,091,361)
Improvements	(278,500)	(6,800)	-	(285,300)
Equipment	(1,978,324)	(199,021)	(137,315)	(2,040,030)
Total accumulated depreciation	<u>(5,150,380)</u>	<u>(403,626)</u>	<u>(137,315)</u>	<u>(5,416,691)</u>
Total capital assets being depreciated, net	<u>7,149,671</u>	<u>(240,779)</u>	<u>-</u>	<u>6,908,892</u>
Governmental activities capital assets, net	<u>\$ 7,795,241</u>	<u>\$ (226,271)</u>	<u>\$ -</u>	<u>\$ 7,568,970</u>

Depreciation was charged to functions as follows:

Instruction	\$ 21,736
Instruction-Related Services	23,048
Pupil Services	132,362
General Administration	4,841
Plant Services	221,639
	<u>\$ 403,626</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2008 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General Fund	Child Development Fund	\$ 8,560
Charter School Fund	General Fund	51
Child Development Fund	General Fund	12,671
		<u>\$ 21,282</u>

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2008 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General Fund	Child Development Fund	\$ 12,671
General Fund	Deferred Maintenance Fund	34,505
		<u>\$ 47,176</u>

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 2,875,000	\$ -	\$ 70,000	\$ 2,805,000	80,000
Capital leases	50,681	-	12,671	38,010	12,670
Other postemployment benefits	88,130	-	24,118	64,012	21,533
Compensated absences *	115,168	-	29,433	85,735	85,735
Total governmental activities	<u>\$ 3,128,979</u>	<u>\$ -</u>	<u>\$ 136,222</u>	<u>\$ 2,992,757</u>	<u>\$ 199,938</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	Governmental Activities		
	Principal	Interest	Total
2009	\$ 199,938	\$ 123,888	\$ 323,826
2010	114,859	120,403	235,262
2011	124,859	116,508	241,367
2012	128,101	112,120	240,221
2013	120,000	107,233	227,233
2014-2018	805,000	440,669	1,245,669
2019-2023	1,200,000	215,408	1,415,408
2024-2028	300,000	6,900	306,900
Totals	<u>\$ 2,992,757</u>	<u>\$ 1,243,129</u>	<u>\$ 4,235,886</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2008, as follows:

<u>Year Ending June 30:</u>	
2009	\$ 12,670
2010	12,670
2011	12,670
Total Minimum Lease Payments	\$ 38,010
Less Amount Representing Interest	-
Net Minimum Lease Payments	<u>\$ 38,010</u>

I. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2008 is as follows:

Total Assets	\$ 180,118
Total Liabilities	88,562
Total Fund Balance	91,556
Total Cash Receipts	329,484
Total Cash Disbursements	282,668
Net Change in Fund Balance	46,816

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

J. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-08 was 9.12% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2008, 2007 and 2006 were \$272,292, \$252,822 and \$241,017, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2008, 2007 and 2006 were \$519,304, \$524,226 and \$499,466, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$428,245.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

K. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2008, expenditures of \$52,598 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

M. Adjustment to Beginning Fund Balance

During the year ended June 30, 2008 the District discovered clerical errors in the calculation of fixed assets from prior years. The district has corrected the beginning asset amounts and the result is an adjustment to beginning fund balance of \$80,020.

N. GASB Statement Number 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 4,020,046	\$ 3,831,009	\$ 3,957,583	\$ 126,574
Local Sources	5,375,382	5,567,347	5,378,563	(188,784)
Federal Revenue	1,197,274	1,200,017	1,090,005	(110,012)
Other State Revenue	3,513,640	4,630,938	3,576,569	(1,054,369)
Other Local Revenue	1,241,732	1,459,562	2,401,531	941,969
Total Revenues	<u>15,348,074</u>	<u>16,688,873</u>	<u>16,404,251</u>	<u>(284,622)</u>
Expenditures:				
Instruction	8,969,121	10,413,276	9,262,168	1,151,108
Instruction - Related Services	1,657,877	1,693,724	1,649,930	43,794
Pupil Services	1,760,614	2,096,821	1,840,393	256,428
Ancillary Services	204,811	201,428	208,995	(7,567)
General Administration	988,483	1,146,842	1,050,897	95,945
Plant Services	1,615,984	1,813,973	1,711,898	102,075
Total Expenditures	<u>15,196,890</u>	<u>17,366,064</u>	<u>15,724,281</u>	<u>1,641,783</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>151,184</u>	<u>(677,191)</u>	<u>679,970</u>	<u>1,357,161</u>
Other Financing Sources (Uses):				
Transfers Out	(73,168)	(47,220)	(47,176)	44
Total Other Financing Sources (Uses)	<u>(73,168)</u>	<u>(47,220)</u>	<u>(47,176)</u>	<u>44</u>
Net Change in Fund Balance	78,016	(724,411)	632,794	1,357,205
Fund Balance, July 1	3,344,757	3,344,757	3,344,757	-
Fund Balance, June 30	<u>\$ 3,422,773</u>	<u>\$ 2,620,346</u>	<u>\$ 3,977,551</u>	<u>\$ 1,357,205</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other State Revenue	\$ 250,977	\$ 184,056	\$ 184,056	\$ -
Other Local Revenue	15,000	61,283	61,283	-
Total Revenues	<u>265,977</u>	<u>245,339</u>	<u>245,339</u>	<u>-</u>
Expenditures:				
Instruction	181,959	156,134	156,134	-
Instruction - Related Services	66,949	60,145	60,145	-
General Administration	-	8,560	8,560	-
Plant Services	17,070	15,138	15,138	-
Debt Service:				
Principal	-	12,671	12,671	-
Total Expenditures	<u>265,978</u>	<u>252,648</u>	<u>252,648</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1)</u>	<u>(7,309)</u>	<u>(7,309)</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers In	1	10,671	12,671	2,000
Total Other Financing Sources (Uses)	<u>1</u>	<u>10,671</u>	<u>12,671</u>	<u>2,000</u>
Net Change in Fund Balance	-	3,362	5,362	2,000
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	<u>\$ -</u>	<u>\$ 3,362</u>	<u>\$ 5,362</u>	<u>\$ 2,000</u>

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Fund County School Facilities Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
Cash in County Treasury	\$ 1,120,344	\$ 196,461	\$ 29,054	\$ 1,345,859
Cash on Hand and in Banks	3,423	-	-	3,423
Cash with a Fiscal Agent/Trustee	5,000	-	-	5,000
Accounts Receivable	97,473	-	285	97,758
Due from Other Funds	51	-	-	51
Stores Inventories	14,941	-	-	14,941
Total Assets	<u>\$ 1,241,232</u>	<u>\$ 196,461</u>	<u>\$ 29,339</u>	<u>\$ 1,467,032</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 15,716	\$ -	\$ -	\$ 15,716
Total Liabilities	<u>15,716</u>	<u>-</u>	<u>-</u>	<u>15,716</u>
Fund Balance:				
Reserved Fund Balances:				
Reserve for Stores Inventories	14,941	-	-	14,941
Unreserved, reported in nonmajor:				
Special Revenue Funds	1,210,575	-	-	1,210,575
Debt Service Funds	-	196,461	-	196,461
Capital Projects Funds	-	-	29,339	29,339
Total Fund Balance	<u>1,225,516</u>	<u>196,461</u>	<u>29,339</u>	<u>1,451,316</u>
Total Liabilities and Fund Balances	<u>\$ 1,241,232</u>	<u>\$ 196,461</u>	<u>\$ 29,339</u>	<u>\$ 1,467,032</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Fund County School Facilities Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
Federal Revenue	\$ 402,125	\$ -	\$ -	\$ 402,125
Other State Revenue	132,534	2,245	-	134,779
Other Local Revenue	166,587	202,467	3,739	372,793
Total Revenues	<u>701,246</u>	<u>204,712</u>	<u>3,739</u>	<u>909,697</u>
Expenditures:				
Instruction	11,396	-	-	11,396
Instruction - Related Services	10,919	-	-	10,919
Pupil Services	563,450	-	-	563,450
Plant Services	10,000	-	-	10,000
Debt Service:				
Principal	-	70,000	-	70,000
Interest	-	128,428	-	128,428
Total Expenditures	<u>595,765</u>	<u>198,428</u>	<u>-</u>	<u>794,193</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>105,481</u>	<u>6,284</u>	<u>3,739</u>	<u>115,504</u>
Other Financing Sources (Uses):				
Transfers In	34,505	-	-	34,505
Total Other Financing Sources (Uses)	<u>34,505</u>	<u>-</u>	<u>-</u>	<u>34,505</u>
Net Change in Fund Balance	139,986	6,284	3,739	150,009
Fund Balance, July 1	1,085,530	190,177	25,600	1,301,307
Fund Balance, June 30	<u>\$ 1,225,516</u>	<u>\$ 196,461</u>	<u>\$ 29,339</u>	<u>\$ 1,451,316</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2008

	Charter School Fund	Adult Education Fund	Cafeteria Fund
ASSETS:			
Cash in County Treasury	\$ -	\$ 21,055	\$ 86,697
Cash on Hand and in Banks	-	-	3,423
Cash with a Fiscal Agent/Trustee	-	-	-
Accounts Receivable	-	253	88,500
Due from Other Funds	51	-	-
Stores Inventories	-	-	14,941
Total Assets	<u>\$ 51</u>	<u>\$ 21,308</u>	<u>\$ 193,561</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ -	\$ 1,160	\$ 14,556
Total Liabilities	<u>-</u>	<u>1,160</u>	<u>14,556</u>
Fund Balance:			
Reserved Fund Balances:			
Reserve for Stores Inventories	-	-	14,941
Unreserved, reported in nonmajor:			
Special Revenue Funds	51	20,148	164,064
Total Fund Balance	<u>51</u>	<u>20,148</u>	<u>179,005</u>
Total Liabilities and Fund Balances	<u>\$ 51</u>	<u>\$ 21,308</u>	<u>\$ 193,561</u>

Deferred Maintenance Fund	Special Reserve Fund	Post Employment Benefits Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 399,982	\$ 459,618	\$ 152,992	\$ 1,120,344
-	-	-	3,423
-	5,000	-	5,000
3,436	3,964	1,320	97,473
-	-	-	51
-	-	-	14,941
<u>\$ 403,418</u>	<u>\$ 468,582</u>	<u>\$ 154,312</u>	<u>\$ 1,241,232</u>
\$ -	\$ -	\$ -	\$ 15,716
-	-	-	15,716
-	-	-	14,941
403,418	468,582	154,312	1,210,575
<u>403,418</u>	<u>468,582</u>	<u>154,312</u>	<u>1,225,516</u>
<u>\$ 403,418</u>	<u>\$ 468,582</u>	<u>\$ 154,312</u>	<u>\$ 1,241,232</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Charter School Fund	Adult Education Fund	Cafeteria Fund
Revenues:			
Federal Revenue	\$ -	\$ -	\$ 402,125
Other State Revenue	-	34,216	35,668
Other Local Revenue	1	3,796	121,662
Total Revenues	<u>1</u>	<u>38,012</u>	<u>559,455</u>
Expenditures:			
Instruction	-	11,396	-
Instruction - Related Services	-	10,919	-
Pupil Services	-	-	563,450
Plant Services	-	-	5,623
Total Expenditures	<u>-</u>	<u>22,315</u>	<u>569,073</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1</u>	<u>15,697</u>	<u>(9,618)</u>
Other Financing Sources (Uses):			
Transfers In	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	1	15,697	(9,618)
Fund Balance, July 1	50	4,451	188,623
Fund Balance, June 30	<u>\$ 51</u>	<u>\$ 20,148</u>	<u>\$ 179,005</u>

Deferred Maintenance Fund	Special Reserve Fund	Post Employment Benefits Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ -	\$ -	\$ -	\$ 402,125
62,650	-	-	132,534
13,585	20,664	6,879	166,587
<u>76,235</u>	<u>20,664</u>	<u>6,879</u>	<u>701,246</u>
-	-	-	11,396
-	-	-	10,919
-	-	-	563,450
4,377	-	-	10,000
<u>4,377</u>	<u>-</u>	<u>-</u>	<u>595,765</u>
71,858	20,664	6,879	105,481
34,505	-	-	34,505
<u>34,505</u>	<u>-</u>	<u>-</u>	<u>34,505</u>
106,363	20,664	6,879	139,986
297,055	447,918	147,433	1,085,530
<u>\$ 403,418</u>	<u>\$ 468,582</u>	<u>\$ 154,312</u>	<u>\$ 1,225,516</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2008

Mountain Empire Unified School District was established in 1952. There were no changes in the boundaries of the district during the current fiscal year. The district is currently operating six elementary schools, one middle school, one high school and one alternative education school.

Governing Board		
Name	Office	Term and Term Expiration
Trina Ambrose	President	Four Year Term Expires December 2010
Danny Nunez	Vice President	Two Year Term Expires December 2010
Jeffrey Morrison	Clerk	Four Year Term Expires December 2012
Tina Heimerdinger	Member	Four Year Term Expires December 2012
William Troutt	Member	Four Year Term Expires December 2010
Beryl Buchanan	Member	Four Year Term Expires December 2010
Kenneth Northcote	Member	Four Year Term Expires December 2010
Administration		
	Steve Van Zant Superintendent	
	Queta Luquin Business Manager	

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2008

TABLE D-1

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	85.50	85.86
Grades 1 through 3	344.83	345.54
Grades 4 through 6	347.35	347.62
Grades 7 and 8	230.01	224.68
Special education	35.78	32.92
Community day school	1.19	2.12
Elementary totals	<u>1,044.66</u>	<u>1,038.74</u>
High School:		
Grades 9 through 12, regular classes	453.17	443.99
Special education	10.54	15.51
Continuation education	14.27	15.01
Community day school	3.84	3.93
High school totals	<u>481.82</u>	<u>478.44</u>
Classes for adults:		
Not concurrently enrolled	<u>3.25</u>	<u>3.71</u>
ADA totals	<u>1,529.73</u>	<u>1,520.89</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	25,659	
High School	7,107	

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2008

TABLE D-2

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-08 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,500	36,000	57,150	166/172*	-	Complied
Grade 1	51,780	50,400	53,550	166/172*	-	Complied
Grade 2	51,780	50,400	53,550	166/172*	-	Complied
Grade 3	51,780	50,400	53,550	166/172*	-	Complied
Grade 4	51,780	54,000	54,500	166/172*	-	Complied
Grade 5	51,780	54,000	54,500	166/172*	-	Complied
Grade 6	51,780	54,000	54,500	166/172*	-	Complied
Grade 7	58,261	54,000	61,033	172*	-	Complied
Grade 8	58,261	54,000	61,033	172*	-	Complied
Grade 9	58,261	64,800	64,804	172*	-	Complied
Grade 10	58,261	64,800	64,804	172*	-	Complied
Grade 11	58,261	64,800	64,804	172*	-	Complied
Grade 12	58,261	64,800	64,804	172*	-	Complied

*The district received a waiver of eight school days at all sites and an additional six school days at one elementary school site for emergency conditions.

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2008

TABLE D-3

General Fund	(Budget) 2009	2008	2007	2006
Revenues and other financial sources	\$ 15,608,119	\$ 16,404,251	\$ 16,091,011	\$ 14,156,813
Expenditures, other uses and transfers out	16,243,736	15,771,457	14,554,471	13,850,067
Change in fund balance (deficit)	(635,617)	632,794	1,536,540	306,746
Ending fund balance	\$ 3,341,934	\$ 3,977,551	\$ 3,344,757	\$ 1,808,217
Available reserves	\$ 3,272,747	\$ 3,908,363	\$ 3,298,842	\$ 991,676
Available reserves as a percentage of total outgo	20.1%	24.8%	22.7%	7.2%
Total long-term debt	\$ 2,792,819	\$ 2,992,757	\$ 3,128,979	\$ 3,218,719
Average daily attendance at P-2	1,475	1,530	1,579	1,588

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The general fund balance has increased by \$2,476,080 over the past three years. The fiscal year 2008-09 budget projects a decrease of \$635,617. For a district this size the state recommends available reserves of at least 3% of total general fund expenditures and other outgo.

Long-term debt has decreased by \$480,312 over the past three years.

Average daily attendance (ADA) has decreased by 82 over the past three years.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

TABLE D-4

	General Fund
June 30, 2008, annual financial and budget report fund balances	\$ 3,957,489
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
State revenue understatement	134,767
Accounts receivable overstatement	(114,705)
Net adjustments and reclassifications	20,062
June 30, 2008, audited financial statement fund balances	\$ 3,977,551

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2008

TABLE D-5

No charter schools are chartered by Mountain Empire Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT**SCHEDULE OF EXCESS SICK LEAVE**

YEAR ENDED JUNE 30, 2008

TABLE D-6

The following disclosure is made for excess sick leave as that term is defined in subdivision (c) of Education Code Section 22170.5:

<u>Titles of Employees Exhibiting Excess Sick Leave</u>	<u>Is Excess Sick Leave Authorized By Employee's Contract?</u>	<u>Was Excess Sick Leave Found To Be Accrued For Employee?</u>	<u>Contract Authorizing Excess Sick Leave</u>	<u>Is Excess Sick Leave Authorized In Teachers' Contract?</u>
None	N/A	N/A	N/A	N/A

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

TABLE D-7

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Medi-Cal *	93.778	-	\$ 68,264
Total U. S. Department of Health and Human Services			<u>68,264</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Program:			
Impact Aid - P.L. 81.874	84.041	-	115,716
Passed Through State Department of Education:			
Title I	84.010	03064	417,004
Special Education *	84.027	03379	284,907
Vocational Education	84.048	03379	16,887
Title VII - Indian Education	84.060	10011	27,105
Preschool *	84.173	03379	3,794
Title IV - Drug Free Schools	84.186	03064	8,018
Carol M. White Physical Education Program	84.215F	05810	660
Partnerships and Character Education	84.215S	09010	34,515
Title V - Innovative Strategies	84.298	03073	3,615
Title II - Technology	84.318	04046	4,502
Title III - LEP	84.365	04203	6,449
Title II - Teacher Quality	84.367	04046	120,630
Total Passed Through State Department of Education			<u>928,086</u>
Total U. S. Department of Education			<u>1,043,802</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch Program *	10.555	03396	402,125
Forest Reserve *	10.665	03396	36,312
Total Passed Through State Department of Education			<u>438,437</u>
Total U. S. Department of Agriculture			<u>438,437</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,550,503</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mountain Empire Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Other Independent Auditor's Reports

WILKINSON HADLEY KING & CO. LLP

CPA's and Advisors
250 E Douglas Ave.
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Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mountain Empire Unified School District as of and for the year ended June 30, 2008, which collectively comprise the Mountain Empire Unified School District's basic financial statements and have issued our report thereon dated January 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mountain Empire Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Mountain Empire Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mountain Empire Unified School District's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mountain Empire Unified School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mountain Empire Unified School District's financial statements that is more than inconsequential will not be prevented by the Mountain Empire Unified School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mountain Empire Unified School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Empire Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Mountain Empire Unified School District in the accompanying schedule of findings and questioned costs. The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Badley King & Co., LLP

El Cajon, California
January 30, 2009

WILKINSON HADLEY KING & CO. LLP

CPA's and Advisors
250 E Douglas Ave.
El Cajon, CA 92020
Ph (619) 447-6700 Fax (619) 447-6707

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

Compliance

We have audited the compliance of Mountain Empire Unified School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Mountain Empire Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mountain Empire Unified School District's management. Our responsibility is to express an opinion on Mountain Empire Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain Empire Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mountain Empire Unified School District's compliance with those requirements.

In our opinion, Mountain Empire Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Mountain Empire Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mountain Empire Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain Empire Unified School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Badley King & Co., LLP

El Cajon, California
January 30, 2009

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Auditor's Report on State Compliance

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

We have audited the basic financial statements of the Mountain Empire Unified School District ("District") as of and for the year ended June 30, 2008, and have issued our report thereon dated January 30, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	No
Adult Education	9	No
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	No
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes

School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	2	Yes
Notice of Right to Elect California State Teachers		
Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Only One School Serving Grades K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not Applicable
Contemporaneous Records of Attendance, For Charter Schools	1	Not Applicable
Mode of Instruction, for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based		
Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Not Applicable

The term "Not Applicable" is used above to mean either that the District did not offer the program during the current fiscal year or that the program applies only to a different type of local education agency.

We did not perform testing for Continuation Education, Adult Education, or Community Day School because the ADA for the respective program was under the level that requires testing.

Based on our audit, we found that, for the items tested, Mountain Empire Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Mountain Empire Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson-Hadley King & Co., LLP

El Cajon, California
January 30, 2009

Findings and Recommendations Section

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial
statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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84.010	Title I
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Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for state programs: Unqualified

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

B. Financial Statement Findings

Finding 2008-1 (30000)
State Revenue

Criteria or Specific Requirement

Determine that all revenue has been properly recorded.

Condition

In our review of state revenue we noted that there were several instances where revenue recorded in the general ledger did not agree with revenue verified from outside sources. It does not appear that a thorough review of state revenue was done at year end to properly accrue all revenue that should have been recorded. We recorded an audit adjusting journal entry of \$134,767 to various resource codes in state revenue in order to properly record revenue.

Questioned Costs

None

Recommendation

We recommend the district implement procedures requiring a thorough review of state revenue at year end to ensure that all state revenue is recorded.

LEA's Response

New procedures are now in place in order to avoid this problem in the future.

Finding 2008-2 (30000)
Accounts Receivable

Criteria or Specific Requirement

Determine that amounts recorded as accounts receivable are appropriately recorded.

Condition

In our review of accounts receivable we noted that there were receivables valued at \$114,705 for which the district was unable to identify or provide any supporting documentation for the amounts accrued. We recorded an audit adjusting journal entry to remove the receivables from the financial statements.

Questioned Costs

None

Recommendation

When recording year end accruals, the district should keep detailed records in order to identify and back up any receivables that are recorded.

LEA's Response

New procedures are now in place in order to avoid this problem in the future.

C. Federal Award Findings and Questioned Costs

None

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

D. State Award Findings and Questioned Costs

Finding 2008-3 (40000)

Independent Study

Criteria or Specific Requirement

- A. Verify that a written agreement exists for each student participating in independent study and that the duration of the agreement is for a period of one semester or one-half of a school year.
- B. Verify that the written agreement contained signatures of the student, the student's parent or legal guardian, the certificated employee who has been designated as having responsibility for the general supervision or independent study; and all other persons, if any, who had direct responsibility for providing assistance to the student. Verify that no days of attendance were reported for dates prior to the signing of the agreement by all parties.
- C. Verify that the student's work product samples are related to the assignment pursuant to which the work was undertaken and reflect the curriculum adopted by the district's governing board.

Condition

- A. In our review of written agreements for the sample of students selected we noted fifteen out of thirty five students selected did not have one or more master agreements on file. In addition, there were eight master agreements which did not include the start and/or end date so we could not determine if they were for a period of one semester.
- B. In our review of written agreements we noted fourteen out of thirty five agreements were either missing one or more signatures or attendance was taken prior to the signing of all parties.
- C. In our review of student's work products we noted two out of thirty five files did not have any work samples on file.

Questioned Costs

11.81 ADA at P2 and 15.69 ADA at Annual resulting in estimated questioned costs of \$68,490.

Recommendation

We recommend that the district provide careful review of all independent study agreements and student files to ensure that the district has complied with state requirements for the independent study program. In addition, the district should amend the P2 and Annual reports of attendance to reflect the reduction in ADA.

LEA's Response

New procedures will be implemented in order to avoid this problem in the future. A corrected P2 and Annual attendance reports will be filed with the State Department. This audit finding will be reviewed by the State Audit Department and the District's Independent Study revenue will be adjusted by the questioned costs.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 2008-4 (72000)
School Accountability Report Card

Criteria or Specific Requirement

- A. Obtain copies of the quarterly report of summarized complaint data and identify any complaints related to teacher misassignment or vacancies and compare such complaints to the information on teacher misassignment or vacancies stated in the School Accountability Report Card.
- B. Obtain the district's school facility conditions evaluation instrument and compare the data contained in the evaluation to that which is reported in the School Accountability Report Card.

Condition

- A. In our review of teacher misassignment or vacancies we noted that the School Accountability Report Card for Pine Valley Elementary School did not provide any information regarding teacher misassignment or vacancies.
- B. In our review of school facility conditions evaluations we noted that the district did not conduct an evaluation for any site during the year that was being reported in the School Accountability Report Card.

Questioned Costs

None

Recommendation

We recommend that the district carefully review School Accountability Report Cards to ensure that they include all required elements. In addition, we recommend that the district perform a facilities evaluation annually and that the information from the evaluation be provided for completion of the School Accountability Report Cards.

LEA's Response

The District administration will verify that a facility's evaluation is conducted on every site with the results provided to District as well as site administration. District administration will also verify that all components of the School Accountability Report Cards are completed by the site administrator.

Finding 2008-5 (40000)
After School Education and Safety Program

Criteria or Specific Requirement

Determine that the District operating the After School Education and Safety Program has complied with the requirements as set forth in the Education Code for the program.

Condition

In review of parent notices, policy sheets, and other relevant program documentation for the after school program offered for the District's elementary schools, the District and participating school sites did not establish an early release policy regarding the daily release of pupils from the program.

In review of attendance reports for March at one school site, it appears that students were not being signed out with parent authorization and time of departure consistently which led to discrepancies in the summarized reports. In review of subsequent reporting, the sign-in/sign-out sheets used for the tabulation of days students served reflected numerous early release times. Consequently, we could not determine if these early release days should be counted in the totals.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

In review of parent notices and other relevant program documentation we could not determine if the district operated the program until 6:00 PM.

The District was unable to provide documentation of a cash or in-kind contribution to the program equal to one-third of the total state grant.

Questioned Costs

For the one site selected, 1,212 days students served are questioned for the third quarter tested.

Recommendation

Establish an early release policy unique to the after school program and disclose the specifics of the policy in parent notices, policy sheets, and other relevant program documentation. Ensure students that leave the program early have met the specific requirements as established with the early release policy.

For the tabulation and reporting of days students served, reconcile the summary recap sheets to scanned student information and correct all discrepancies. Review scanned summary information to ensure days reported agree to the number of days recorded within the sign-in/sign-out sheets. Review sign-in/sign-out sheets for early release times and ensure all students that have been signed out early have the proper "Daily Early Release Form" on file, if applicable, or are within the stated guidelines of the current early release policy in order for the days counted to be valid.

Establish procedures to ensure those days and times of operation for the after school program are disclosed in all parent notices, brochures, and other relevant program documentation.

Establish procedures that track cash and/or in-kind donation by the district to ensure that state compliance requirements are met.

LEA's Response

The District's Special Projects Director is reviewing the After School Education and Safety Program to put in place all State requirements for this program. The Director is completing the evaluation of the program and is compiling procedure recommendations for the After School Education and Safety Program Coordinators to implement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2007-1 (10000) Attendance Reporting</p> <p>In our review of the P2 and Annual reports of attendance submitted to the California Department of Education, we noted several clerical errors which resulted in an overstatement of P2 ADA of 10.09, Annual ADA of 1.97, and supplemental hours at P2 of 24,738. Supplemental hours were reported correctly on the Annual Report of Attendance.</p> <p>We recommended the district amend the P2 and Annual Reports of attendance to accurately reflect ADA. In addition, we recommended the district implement procedures which would reduce the opportunity for clerical errors in the preparation of attendance reports submitted to the California Department of Education.</p>	<p>Implemented</p>	

